



MAYOR JERRY SANDERS FY08 BUDGET REMARKS APRIL 13, 2007

It's my pleasure today to present a balanced budget for FY08 that maintains municipal services. This is a reform minded budget that begins to address the kinds of structural deficits that have been ignored by the City for years and in some cases decades.

I look forward to presenting my budget to the City Council on Monday and to their review and deliberations of it over the next two months. This is an incredibly important time of year for our community. I invite the public to become aware of our City's budget and to become involved. The budget will also shortly be posted on the City's web site at www.sandiego.gov.

Over the course of the next several weeks, I will host a budget town hall in each of the Council districts to share important elements of the budget with our members of our community.

Section 1: Balanced Budget Closes \$87.4 Deficit by Reforms and Cost-Cutting

In November of last year, I identified an \$87.4 million deficit. At the time, I thought -- and we said -- that it would not surprise me if we had to cut services in order to balance the budget. Given the fact that I have a responsibility to be truthful with our citizens, it was a possibility that I wanted everyone to appreciate.

Because of that deficit and with the goal of making City government more efficient generally, my administration stepped up the full frontal attack that we had already declared on the inefficiencies associated with our government's processes.

The result is a more streamlined city operation. And a budget proposal that will allow us to continue to provide basic city services to our citizens at the same levels as this fiscal year -- and in some cases increased levels of service. But none of this would be possible without the many permanent and fundamental reforms that are part of the budget.

Over the past year, my administration has been examining virtually every department, process and function of City government with the objective of reducing costs and creating managerial efficiencies. This process, known as Business Process Re-engineering (BPR), will bring tens of millions of dollars in savings.

The Council will consider many of the cost-cutting recommendations as part of the budgetary process. We did not want to miss this opportunity to get as many of these new efficiencies before them.

Let me give you an example of what I mean.

Section 2: Fleet Maintenance Reforms Indicative of Progress

The purchasing and maintenance of the City's vehicles has historically happened in silos -- with virtually no coordination between departments. The police and fire-rescue departments took care of their own vehicles and the General Services department took care of the rest of the City's vehicles.

The result of the fleet service BPR -- which will be presented as part of the budget -- is that there will now be one fleet service department for the entire City. This change will improve service levels and save the City approximately \$2.6 million annually.

Fire trucks used to be sent out of the county for repair. That was extraordinarily expensive and time consuming. We will now be repairing them at our own facility, thereby getting them back on the road quicker at less expense.

This is the same kind of thinking that we have tried to bring to every review of our processes.

Section 3: City Payroll will have 710 Fewer Employees

Major savings will also be achieved through personnel reductions. Approximately 672 full time positions will be permanently eliminated from the City's budget in FY08. Since I took office in December 2005, we have eliminated a total of 709.53 full time positions from the City's payroll.

And in anticipation of my FY09 budget, I plan to cut another 250 positions. All in all, this will represent a cut of approximately 960 positions or 12.4% of the city's mayoral workforce, excluding sworn law enforcement positions.

Section 4: More Employees DOES NOT equal Better Service

I have heard two observations about service levels that I want to speak to for a moment.

The first is that we can't provide the same service levels with fewer City employees. I don't agree. I don't think that more people equal better service. More people certainly equal greater costs but it does not follow that more people equals greater service levels.

Over the past decade, the City has added roughly 2,000 more employees. I don't necessarily believe that these additions have aggregated to an increase in service levels. It is true that we will be asking our dedicated City employees to do more. And I appreciate that. It will be incumbent on us as managers to ensure that things don't fall through the cracks and that the workload is redistributed.

As with all change processes, there will be bumps in the road. And I expect there will be with this one. When you effectively reduce your employment by 12%, there are going to be transitional

issues. But I believe those issues will be temporary in nature and that we will have a far more efficient operation on the other side of our transition.

Section 5: Better Way to Measure Service Levels

Secondly, I have heard some question our ability to say that we are maintaining municipal service levels while saying that we can't effectively measure them. I can appreciate how folks might be confused. But both statements are accurate and completely reconcilable.

My FY08 budget proposal locks in place the same municipal service levels that we have had this year, albeit in a more efficient manner: our residents' trash will be picked up on the same schedule; library hours will be the same; rec center and pool hours will continue as planned; funding to our arts and culture commission – and the many institutions they, in turn fund, will continue. This is the way in which the City has measured service levels for years and it will continue into FY08.

In some cases, my budget proposes enhancements to services. For example, my FY08 budget includes a 96% funding increase for street repairs. The amount of City streets that we will repair has increased by 448% since I took office. There are also \$10 million in enhancements for our public safety personnel.

What I am saying is that there should be a better way – a more enlightened, effective and useful way -- of measuring service levels to assess whether or not we are truly making progress.

For example, right now, we measure the number of miles of streets that we re-pave. That information, to me, is interesting but has little use. We've been doing it that way for years and that's fine – but there's a better approach.

Instead, my thinking is that when we discuss the maintenance of city streets, a more accurate measurement of effectiveness would be the miles of streets repaved that were most heavily traveled and most in need. The measurement that I am recommending is much more difficult, but also much more enlightened and useful.

Right now, paving a dirt road in the back country gets credit equal to repaving El Cajon Boulevard. That isn't very useful as a benchmark of our effectiveness.

This new way of measuring service levels is the entire purpose of the new management plan that I have proposed to the City Council. We have told the Council that we will be working throughout the coming fiscal year on it in anticipation of the FY09 budget.

Section 6: Sanders Budget Funds Long-Term Obligations

I am very proud that my budget includes funding for a number of long-term obligations that have historically been under funded.

These obligations include, among others, a greater contribution to the pension and retiree healthcare system, deferred maintenance to include the storm drain pollution prevention system and ADA improvements.

The unfunded liability associated with 8 of these long-term obligations now surpasses \$2.94 billion. Left unaddressed, the liability could double within the next ten years and further threaten the City's treasury and financial stability.

I aim to change this destructive and expensive behavior by beginning to pay down the principal on 7 critical long-term obligations this year and another one next fiscal year.

The hallmark of my budget is reform, cost-cutting and streamlining. I am proud of the very positive progress that we have made. But even more will be done in order to close our FY09 budget gap.

Our aggressive reform efforts will continue throughout FY08, thereby reducing the projected budget gap of \$41.8 million in FY09. I am hopeful that we can identify funding to fully close the gap.

But I will need the Council's help. And that means not assuming any further obligations for which we do not have a pressing need.

Section 7: Mayor Opposed to Firefighter Raise/Benefits Increase

Let me speak to the pay raise that some may wish to give to the firefighters. I have not heard whether or not there is a move to change or increase the healthcare benefits for firefighters but I will also speak to that.

I have a great deal of respect for firefighters. I think they are incredibly courageous men and women. I am extremely grateful for their service to our city and our community. This year, I am opposed to a pay raise for this category of city employee and I'll tell you why.

In the past, compensation and benefits has been done in a completely arbitrary – and some would say political – fashion. The raises and benefits that were conferred upon collective bargaining units had no connection to the market forces affecting their group of employees.

Whoever had a better negotiator – whoever could influence the decision makers more – got the pay raise. That's wrong. This practice has created the financial mess we're in with the pension system and is also the cause of the public's distrust in government. It's also what gives unions a bad name.

I aimed to reverse that trend by, for the first time in the City's history, assessing the market conditions in which each of our employees operate. Everywhere across this country, workers are compensated according to market conditions. The same should be the case with government employees.

Section 8: Police Raise Answer to a Market, Not Political, Condition

The recruitment and retention problem for police officers nationwide – and here regionally – could not be better documented. At the San Diego Police Department, we are down over 200 officers this year and are scheduled to lose another 200 next year to retirements. The pay comparison showed that our officers were at the bottom of the barrel.

Unless their pay increases, we will lose more officers and in my opinion, face a public safety emergency. There is no such condition with firefighters. Just recently, there were over 2,000

candidates for just 50 open positions at our Fire-Rescue Department. During FY06, the department lost only 1 firefighter to another department. A quick survey of local fire departments shows that there are virtually no openings. The only objective conclusion that I can come up with is that there is no recruitment or retention problem associated with firefighters.

The City faces some dire financial times. As I have said, we face a budget deficit of \$41.8 million next year and even higher deficits in the out years.

Section 9: 4% Increase for Firefighters Equals \$4 million in FY08

A 4% pay increase for firefighters would cost the City \$4 million in FY08 – it's \$4 million that we don't have and money that I do not have programmed into budget. If the Council wishes to give this raise, they will have to cut some other vital City service to do so. Over time, the raise is also worth much more than \$4 million annually because it compounds.

I based the proposed raise for police officers on market conditions. I would have preferred not to give any employee group a raise – we need to husband our resources. But I did not have that luxury with police officers. No such market conditions exist for any other category of City employee. Unclassified employees, for instance, will not be getting a raise this coming year.

I will oppose the raise for firefighters. Again, I am grateful for their service and I am extremely proud of their efforts as dedicated civil servants. But I must protect the City's interests first and that means not continuing the destructive behavior that got us into hot water to begin with.

Section 10: Healthcare Reform Also At Stake

I am also concerned about what a Council deal with the firefighters may do to the reforms that I am recommending for the City's healthcare plans.

As a result of the various unions' influence here at the City, we currently find ourselves offering 21 different healthcare plans. This makes no sense and offers the taxpayers limited buying power.

It is my recommendation that we consolidate all our healthcare plans into 3 plans: Kaiser, an HMO and a PPO plan. I am also recommending that we change from a cafeteria plan to an employer paid percentage of coverage system.

This system was agreed to by the police officers union because it means better and less expensive coverage for most of their members. The kind of system that we are proposing would mean that a typical employee with a spouse and a family that opts for Kaiser would save \$2,600 per year for their healthcare coverage.

The fire fighters union won't agree to it. I'm puzzled as to why because it would be a better offering for their members – better coverage at cheaper rates.

I think that part of the reason may be that the union's leadership doesn't want to surrender the commissions that the insurance companies pay them.

My recommendation to the Council will be that we impose the new system on the union. In the case of the fire fighters union, the City is set to save \$664,000. With the police agreement, the City will save an additional \$800,000.

If the Council does not impose the system on the firefighters, the reform will be scuttled, our buying power will be reduced and our rates will go up dramatically.

I urge the Council to hold tight to no pay or benefits increase this year for this employee group.

Section 11: Budget will have a May Revise

This is my second budget. We've learned a lot since we put out the first budget last year, after being in office for just four months.

One of the lessons is to put out more detail immediately. Consequently, this budget has detail on each City department. Last year, that information came out over time. It's certain much more transparent and efficient if the information is released all at once – so that's exactly what we have done.

Another reform that we learned from last year was how to reconcile changes that were made after the budget had gone to print. As you can appreciate, every single piece of information could not be included in this budget document. It would never go to print. So, we will be doing a May revise – right around the middle of next month. The revisions, for instance, will include the portion of the bond proceeds for our capital projects and elements of the police pay increase that did not make it into the printed budget we are releasing today.

Section 12: Congratulations to Jay Goldstone and Mary Lewis

Let me end by congratulating Jay and Mary and their staffs. They have done an amazing job and deserve our thanks.